

Report of the auditor-general to the Free State Legislature and the council on the Tswelopele Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Tswelopele Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South Africa Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting

policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Tswelopele Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2015-16 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material losses

9. As disclosed in note 32 to the financial statements, the municipality suffered material electricity losses of 17,79% (R5 299 368) mainly due to electricity theft as well as technical losses.

Material impairments

10. As disclosed in notes 12 and 13 to the financial statements, management provided for the impairment of consumer and other receivables of R38 516 578 (2015: R36 877 303).

Irregular expenditure

11. As disclosed in note 46 to the financial statements, the municipality incurred irregular expenditure of R4 698 122 (2015: R9 423 995) mainly due to conditional grants not being used for the intended purposes as well as non-compliance with supply chain management (SCM) requirements.

Unauthorised expenditure

12. As disclosed in note 44 to the financial statements, the municipality incurred unauthorised expenditure of R3 946 145 (2015: R5 849 822) due to expenditure that exceeded the limits provided for in the main divisions of the approved budget.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Report on other legal and regulatory requirements

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected key performance areas presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected key performance area presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Key performance area 2: municipal infrastructure and basic service delivery

17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned key performance area. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information.

18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. I did not raise any material findings on the usefulness and reliability of the reported performance information for the selected key performance area.

Additional matters

20. Although I raised no material findings on the usefulness and reliability of the reported performance information for the selected key performance area, I draw attention to the following matters:

Achievement of planned targets

21. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year.

Adjustment of material misstatements

22. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information for municipal infrastructure and basic service delivery. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

23. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements, performance report and annual report

24. The annual financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.
25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, non-current liabilities, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

26. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c).
27. Bids were not always evaluated by bid evaluation committees composed of officials from the departments requiring the goods or services, as required by SCM regulation 28(2).

28. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Expenditure management

29. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA.
30. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.
31. Reasonable steps were not taken to prevent fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Conditional grants

32. The municipal infrastructure grant allocation was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of DoRA.

Internal control

33. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

34. The leadership did not always exercise oversight responsibility with regard to compliance with legislation, as instances of non-compliance with applicable laws and legislation recurred.

Financial and performance management

35. Management did not prepare regular, accurate and complete financial reports, which resulted in numerous material adjustments to the annual financial statements. This was also due to reliance on consultants to prepare the fixed asset registers and annual financial statements.
36. Material adjustments had to be made to the annual performance report as it was not adequately reviewed before submission, due to vacancies within the strategic management division of the municipality.

Auditor - General

Bloemfontein

12 December 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence